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Retirement Systems

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Date: April 2007

To: State and County Plan Members

From: Phyllis G. Chambers, Director
Nebraska Public Employees Retirement Systems

It is a pleasure to present you with the 2006 Annual Investment Report of the State and County Defined Contribution (DC) Plans, Cash Balance Benefit and the Deferred Compensation Plan (DCP). It is our hope that you will find this publication beneficial in evaluating your retirement plan performance and in making future decisions related to your retirement objectives.

At year end, the State Defined Contribution and Cash Balance plans grew to 18,738 plan members with assets of more than $1.2 billion. The County Defined Contribution and Cash Balance plans consisted of 8,216 plan members with assets of more than $308 million.

Strong market performance led to positive net earnings for each of our thirteen fund choices in the DC and DCP plans. The International Stock Index Fund led the equity sector with annual earnings of 26.79% followed by the Large Company Value Stock Index Fund earning 22.22%. Some major market sectors performing with double-digit returns were energy, telecom services, utilities, consumer discretionary, consumer staples, information technology and financials. In the U.S. Bond market, the Federal Reserve held short term rates steady in the second half of 2006. The federal funds rate was 5.25% at the end of the year.

Employees participating in the Cash Balance plans received a dividend of 13.5% for State members and 16.4% for County members. A legislative bill is currently being proposed to open the Cash Balance plans to DC members at the end of 2007. We will send you detailed information if this bill is enacted.

This report is one example of our educational services offered to our members. It includes practical information for making sound investment decisions. You will also find useful information on the NPERS website, in the quarterly newsletters and your account statements. Plan members have found our retirement seminars to be extremely helpful and I would highly encourage you to attend one. If your agency, county or department is interested in having an NPERS representative meet with you, please contact our office. NPERS, Ameritas, and Sterling Financial Advisors are all resources available to you depending upon your needs.

There are many partners who work behind the scenes contributing to the success of your retirement plans. We want to acknowledge the Nebraska Investment Council for its superb management of your assets and the diligent selection of the fund managers. We are grateful to Ameritas for its exceptional record keeping services and continued commitment to our members. We want to thank Sterling Financial Advisors for providing investment assistance through its toll-free phone service and for participating in our retirement seminars. We greatly appreciate the Public Employees Retirement Board (PERB) for its dedication and leadership in establishing the policies and performing the oversight of NPERS. Finally, I want to acknowledge NPERS loyal staff for their serious commitment to providing you with outstanding service.

Best wishes for another successful year!

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Construct a Sound Base for Retirement

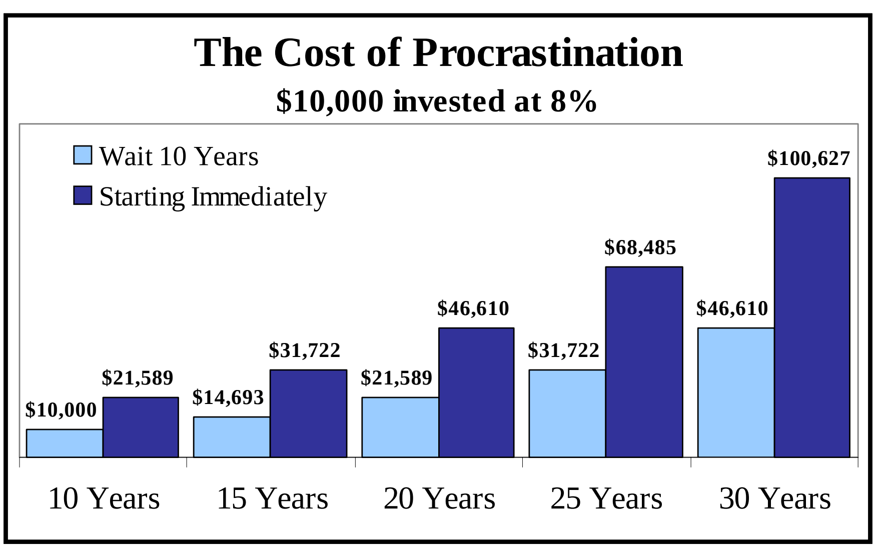
by Mary Jochim
Sterling Financial Advisors

*(**Sterling Financial Advisors** is a registered investment advisor under contract with the Nebraska Public Employees Retirement Systems (NPERS) to provide you with investment education services. They can discuss with you the pros and cons of various investment options, market outlooks, and offer guidelines to consider in making your decisions. While no one can advise you what you should do, it can be very helpful discussing your options with professionals. You can reach Sterling Financial Advisors at **877-970-9300** or in Omaha at **402-970-9300**.)*

Fables, Legends and Fiction About Retirement:

 # 1 I'm too young to worry about retirement... News Flash! You won't stay young. You're never too young to make plans. You may also think you are going to be just a short-timer in state or county government, so why bother. Others have thought that too, only to surprise themselves some 20 or 30 years later that they turned out to be a "lifer" in government. Even if you leave government service, it is imperative you maximize your retirement plan each and every year, no matter where you work. Pay attention. Ask questions. Read your retirement plan newsletter. Besides your mandatory State or County Retirement Plan (either Defined Contribution or Cash Balance), you also have a *voluntary* §457 Deferred Compensation Plan (DCP) where you can put aside extra dollars on a tax deferred basis. The sooner you begin saving for retirement, and taking advantage of offerings like DCP, the less you'll have to put aside. For example, if you want to have a $200,000 *additional* nest egg by age 65, you'll only have to save about $26 a week if you start at age 35. But if you wait until you're 55 to start, you'd have to put aside $233 every week. You can do this the easy way by *starting now*, no matter what your age.

(Both cases assume your money is invested earning a hypothetical 9% return. This example is for illustrative purposes only and is not intended to reflect the actual performance of any security. Investing involves risk and you may incur a profit or a loss.)

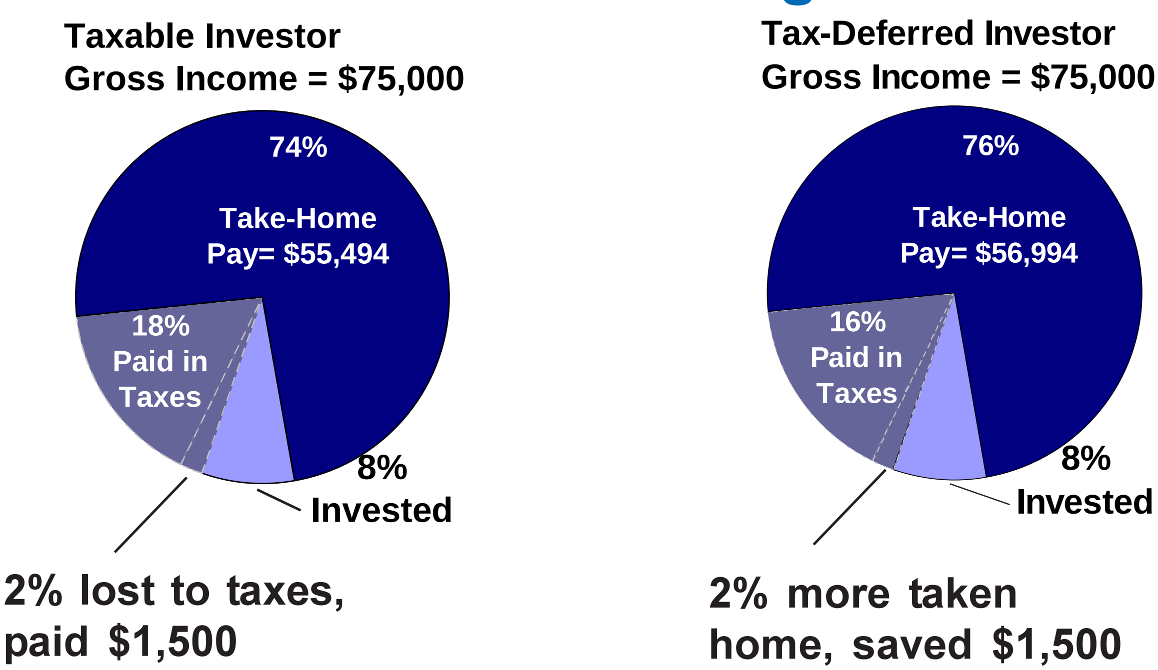


2 **I won't need much to live on...** Wow. Beans and wieners. That sounds like fun! Many experts estimate that, on average, to *maintain your standard of living* in retirement, you'll need about 80% of your pre-retirement income, and 100% if you're planning extra activities such as travel. That income has to continue to grow enough in an attempt to keep up with inflation. Don't just read this paragraph - do the math. How much money will you need? "Choose to Save" (a program of the Employee Benefit Research Institute) at **www.choosetosave.org,** offers an impressive array of estimators on budgeting, paycheck planning, home buying, life insurance, Roth IRAs, stocks and mutual funds, to name a few. Many other useful calculators can be found on the web. The rest is up to you.

3 **My kids will take care of me...** Good luck! This is not a strategy for most reasonably sane people. Most children might want to lend their aging parents a hand, but many can't afford to. About the time you're ready to retire, your children could be paying their children's college tuition – and saving for their own retirement. You'd be wise, therefore, to leave the kids out of your plans. They will appreciate it.

4 **I can't afford to put money away where I can't touch it for many years...** *The truth is, you can't afford NOT to participate in tax deferred retirement plans!* Thank goodness your State or County Retirement Plan is mandatory or some individuals would not even contribute to a plan where there was a generous employer match, which amounts to "free money," if it meant less money in their pocket. Contributions to the voluntary Deferred Compensation Plan (DCP), as well as various IRAs, Roths and the like can reduce your current tax burden or provide tax-free withdrawals and significantly improve your nest egg. In addition, taxes are also deferred on earnings, so retirement savings have the potential to grow faster than others do. Saving more saves on taxes and increases your overall take home pay.

Pre-Tax Savings



Assume an 8% contribution and taxes calculated for a single individual with the standard deductions.

Common Investment Principles to Live By

Perseverance. Patience. Persistence. While these words were once limited to the battle cries for military organizations and football teams across the country, they were recently the mantra for investors ravaged by the latest bear market. But that particular bear market mauled so many money maxims that talking the talk is certainly much easier than walking the walk. However, there are common principles no matter what maxim you choose.

There are two times when people forget their investment principles - at the top of the market and the bottom of the market. Keep in mind, there have been 30 bear markets in the last 100 years and each one was followed by a recovery. If you are an investor concerned with protecting your portfolio in the future from more stock market volatility, below are some basic principles that have stood the test of time.

- **Formalize your goals.** As with the achievement of any goal, commitment to it is half the battle. Make your dedication official by writing your goals down, both short- and long-term. You can then check your progress by updating them annually. If not, how else will you know if you're close to attaining them? Remember, if you don't know where you are going, any road will get you there.

- **Stay balanced.** Build a well-diversified portfolio using different asset classes, like stocks, bonds, money markets, etc., and investments that are designed to complement each other and may not move in the same direction at the same time. Over all, your investment portfolios, savings, retirement and taxable investments should be comprised of cash equivalents, bonds, equities, real estate and tangibles. If you are in Defined Contribution or DCP and are not comfortable making such decisions, take a good look at some of the premixed funds offered as options. These diversified "premixed" funds do most of the work for you including rebalancing as necessary to keep your asset allocation on target.

- **Reassess your risk tolerance.** Amidst market turmoil, you may realize you don't quite have the stomach for volatility you originally thought. If that's the case, move incrementally over time toward a more appropriate investment mix. Again, this is where a well-diversified portfolio can help. It will offset instability and put you on the path toward achieving your financial goals.

- **Get educated.** A comfortable retirement requires looking the facts squarely in the face – yourself in the mirror – and creating a realistic plan that works for you. Take advantage of the many educational resources available. Take a moment and visit the Social Security web site **www.ssa.gov** and find out how you can get a personalized estimate. Attend a Financial Planning Seminar offered by the Nebraska Public Employees Retirement System (NPERS) if you are under age 50. Or attend a Retirement Seminar if you are age 50 or over. Of course, this brief article is no substitute for a careful analysis of your personal circumstances. Before implementing any significant tax or financial planning strategy, contact your financial advisor, attorney or tax advisor as appropriate.

- **Use dollar cost averaging.** Dollar cost averaging means investing the same amount on a regular basis, done over time throughout various market cycles by buying more when the price is low and less when the price is high. The higher the unit price, the less units your dollar buys. The lower the unit price, the more units your dollar buys.

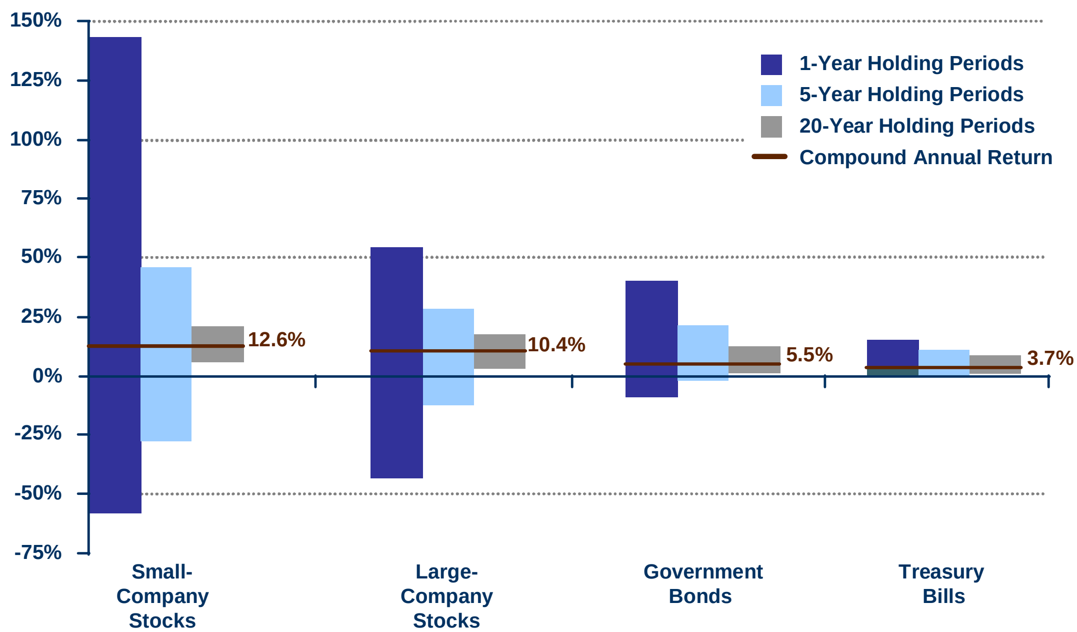
Price of Shares		$2,000 Each Month Buys	$10,000 Lump Sum Buys
Month 1	$1.80	1,111 shares	5,556 shares
Month 2	$1.20	1,667 shares	——
Month 3	$1.85	1,081 shares	——
Month 4	$1.35	1,481 shares	——
Month 5	$1.90	1,053 shares	——
		6,393 shares	**5,556 shares**

- The “magic” of dollar cost averaging is that you can end up with an *average* purchase price that is *less than* the average price over the time period. Over the five month period shown above, the price of shares of stock averaged $1.62 a share. However, the average purchase price was $1.56 a share ($10,000/6,393). By investing each month, more shares were bought when the price was low, fewer when the price was high, resulting in more shares for your money!!

  Dollar cost averaging does not insure an investor of a profit.

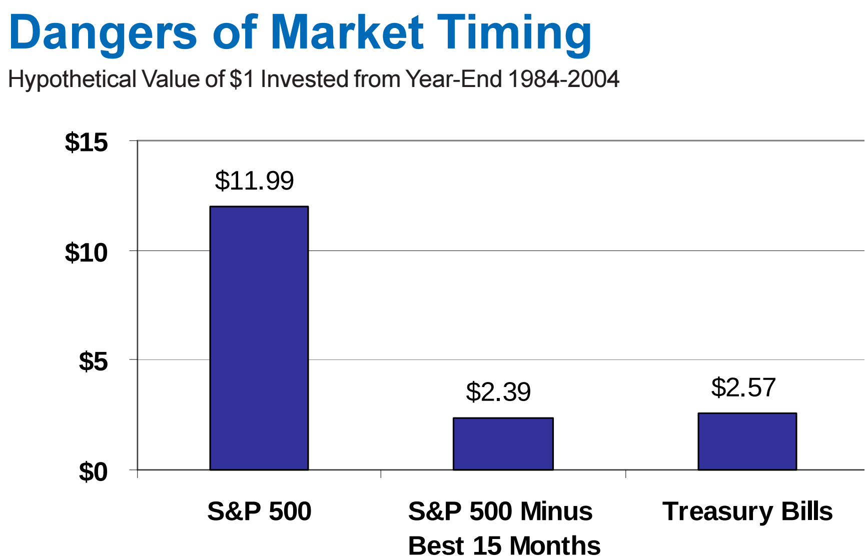
Reduction of Risk over Time

1926 – 2005



Each bar shows the range of compound annual returns for each asset class over the period 1926-2005.

- **Prepare for the long haul.** There are few guarantees in life, but one thing you can be sure of is market volatility. That's why it's important for you to ignore the everyday ups and downs of the market and stay focused on the long term. Don't try to time the market. History shows this is one of the worst things an investor can do because they usually don't do it well. You have to be right twice in timing the market, once in knowing when to get out and then, twice knowing when to get back in. Knee-jerk reactions could make things even worse. Remember time is on the side of the prudent, well-diversified investor. *It's not timing the market that matters; it is time in the market*. Peter Lynch, a well-respected investment professional, has stated "When it's 15° below in Minnesota they don't panic - they just wait until spring." Substitute "Nebraska" for "Minnesota" and you get the point. That's great advice for a bear market. The bear will go back into hibernation.



Source: Provide by Sterling Financial Advisors and Ibbotson & Associates

Let's Talk About Asset Allocation

It's not enough just to invest. You need to choose the right mix of investments to meet your goals. Allocating your assets means deciding how to spread your money among the numerous options provided. This applies to the State and County Retirement Plans, the state's Deferred Compensation Plan, or any County's deferred compensation plan, as well as your other outside investments.

For both your member contributions and your employer matching contributions in the Defined Contribution benefit of the State or County Plan, you have 13 different fund choices which are selected, monitored, and terminated, when necessary, by the Nebraska Investment Council. State employees participating in the voluntary Deferred Compensation Plan have those identical 13 choices. Counties have their own deferred compensation investment choices. Everyone, including you, should participate in a deferred compensation plan.

These are clichés, but asset allocation is all about "not putting all your eggs in one basket," "hedging your bets," "playing the field" and so on. Diversify. Diversify. Diversify. Approximately 95% of your return will come from that one decision.

To Diversify Using *Stock Investments*, You Have the Following Choices:

- **Large Company Value Stock Index Fund** – generally slower growing, often less volatile, hedge against inflation
- **Large Company Growth Stock Index Fund** – faster growing, hedge against inflation, but more volatile
- **Small Company Stock Fund** – fastest growing, more "cutting edge," hedge against inflation but much more volatile
- **S&P 500 Stock Index Fund** – 500 largest companies, mix of growth and value, hedge against inflation, and often less volatile
- **International Stock Fund –** divergent returns from U.S. Markets, hedge against inflation with greater volatility

For Investing in *Fixed Income*, You Have the Following Choices:

- **Money Market Fund** – Lower rates of return (follows interest rate changes more quickly with no negative price volatility)
- **Stable Value Fund** – Higher interest rate and no volatility (return follows interest rate change gradually with no negative market volatility)
- **Bond Market Index Fund** – Variable returns both positive and negative, returns that balance stock returns with higher/lower returns sometimes in the opposite direction. (Return varies with moves in interest rate changes quickly and is more volatile.)

You will find additional information later in this booklet on each of the options listed above. More information about the terms used is available in the glossary. Please take time to study it.

Premixed Funds

For your member contributions in Defined Contribution as well as your employer matching contributions you can choose among the eight choices on pages 11 and/or the following "premixed" funds including the Age-Based Fund and the Investor Select Fund. You can think of these premixed funds as a cake from a bakery or a car just off the assembly line. You can select the flavor or color but in either case, the work has been done for you and you are good to go.

The premixed funds use a combination of stock and fixed income funds. For example, in the Employer Moderate Fund, 50% will be invested in the fixed income funds and 50% in the funds with stock investments. By selecting among the premixed choices, you have made an asset allocation. Within that asset allocation, each fund itself is diversified! Congratulations!

Funds	Asset Allocation Bonds/Stocks
Conservative Premixed Fund	75% / 25%
Moderate Premixed Fund	50% / 50%
Aggressive Premixed Fund	25% / 75%

Age-Based Fund

Authorized by the 2005 Legislature, the Age-Based Fund is similar to a "life cycle" fund. As the participant moves closer to retirement, the asset allocation mix among bonds, stocks, and cash changes. The existing three premixed funds described on page 12 serve as the underlying investments for a participant who chooses the Age-Based Fund.

Investor Select Fund

Also authorized by the 2005 Legislature, the Investor Select Fund is a premixed fund invested with an asset allocation and investment strategy substantially similar to that of the Defined Benefit Plans (for School, Judges and State Patrol employees) also administered by NPERS. The allocation is a combination of actively managed portfolios and passive index funds.

The Nebraska Investment Council oversees the investing of the combined monies in the Defined Benefit Plans for School, Judges and State Patrol members and has historically averaged a 10.5% investment return. (Past returns are not a guarantee of future performance.) The Investor Select Fund was created to give DCP participants the advantage of the Investment Council's collective professional investment knowledge.

Fund	Asset Allocation Bonds/Stocks/Real Estate
Investor Select Fund	30% / 65% / 5%

The Bottom Line

The Premixed Funds, Age-Based Fund and Investor Select Fund *automatically* adjust to changing market conditions. Very powerful! Here is an example. You selected the Aggressive Premixed Fund because you felt a larger exposure to stocks was right for you (75%) but you still wanted some fixed income investments (25%). Time goes by and the stock market has been very rewarding. So much so that your account now has 83% stocks and only 17% fixed income. That's out of balance. The fund will sell some of the stocks (thus selling high) and invest more in fixed income (thus buying low).

Think of a bad stock market. You are down to 60% stock, 40% in fixed income. To re-balance, more stock will be purchased (thus buying low) and fixed income sold to return the premix to 75% stock and 25% fixed income.

All without having to think about it.
It makes buying low and selling high a breeze!

Risk Related to Return

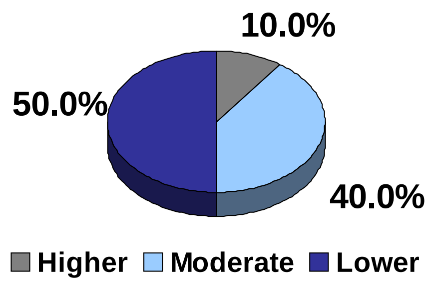
- **Lower Risk Investing** (Conservative Investment Model) has less change up and down in value, less risk of capital losses during any given time period, more risk of under-performance over time, more loss of purchasing power over time, and historically lower rates of return.

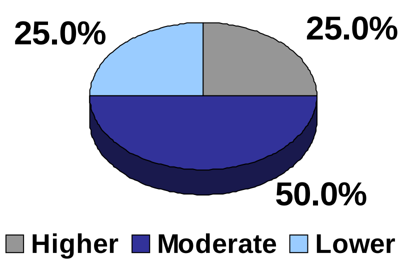
- **Moderate Risk Investing** (Moderate Investing Model) has more change up and down in value, more risk of capital losses during difficult market periods, less risk of under-performance over time, less risk of loss of purchasing power, and historically higher rates of return.

- **Higher Risk Investing** (Aggressive Investing Model) has frequent changes up and down in value, some changes in value can be large, more risk of capital losses over shorter periods of time, less risk of under-performance over time, less risk of loss of purchasing power over time, and historically the highest rates of return over time.

Conservative Investing Model

- *Emphasis:* Safety and Stability
- *Retirement Horizon:* 5-10 years
- *Goal:* Preservation of principal with competitive returns
- *Risk:* Lower



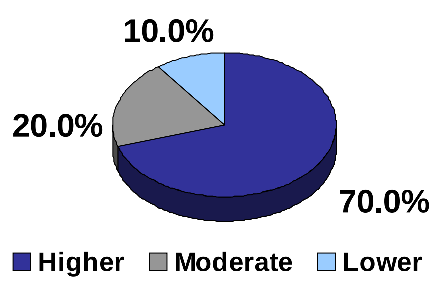


Moderate Investing Model

- *Emphasis:* More stability in an “up and down” market
- *Retirement Horizon:* 10-20 years
- *Goal:* Growth and current income
- *Risk:* Moderate

Aggressive Investing Model

- *Emphasis:* Build assets and protect against inflation
- *Retirement Horizon:* 20+ years
- *Goal:* Capital appreciation
- *Risk:* Higher



Examples of:

Lower Risk	Moderate Risk	Higher Risk
Money Market Fund	Bond Market Index Fund	S&P Stock Index Fund
Stable Value Fund	Moderate Premixed Fund	Large Company Growth Fund
Conservative Premixed Fund	Investor Select Fund	Large Company Value Fund
Age-Based Fund for age 60 and over	Age-Based Fund for ages 40-59	Aggressive Premixed Fund
		International Stock Fund
		Small Company Stock Fund
		Age-Based Fund for ages through 39

What Are The Odds...?

...that you'll win the state lottery?	1 in 4 million
...that you'll be killed by a plane falling on you?	1 in 300,000
...that you'll one day receive a new identity under the U.S. Witness Security Program?	1 in 20,000
...that you'll be killed in a plane crash?	1 in 4,000
...that you'll crush a finger with a hammer this year?	1 in 3,000
...that you have a fish or shellfish allergy?	1 in 1,000
...that the airlines will lose your luggage?	1 in 186
...that you'll be audited by the IRS?	1 in 100
...that you'll be killed in a car accident?	1 in 42
...that your next meal will be from McDonald's?	1 in 8
...that it's just tap water when you buy bottled water?	1 in 4
...that if you call the IRS for tax assistance, no one will answer your call?	1 in 3
...that you'll experience back pain sometime during the next 6 weeks?	1 in 2
...that nuclear weapons are based in your state?	1 in 2
...THAT AN INVESTMENT IN STOCKS WILL MAKE MONEY IN ANY GIVEN YEAR?	**7 in 10**
...that you'll regain weight you lost by dieting?	9 in 10

More on Diversification

By diversifying, you minimize the volatility of your overall account. While it will prevent you from being 100% right, more importantly it prevents you from being 100% wrong. You can tailor the investment mix to what best suits your needs. Ask questions. Think about your comfort level, market risk and inflation, years to retirement and your other investments as you make your decision.

First Investor

Invests $10,000 once in a lump sum, invested for 25 years and earns an 8% fixed rate of return

Amount Invested	Rate of Return	Ending Value
$10,000	8%	$68,500

Total Accumulation: $68,500

Second Investor

Invests $2,000 each at 5 different times in 5 different investments, invested for 25 years and earns variable rates of return

Amount Invested	Rate of Return	Ending Value	
$2,000	-100%	$0	(Total Loss)
$2,000	0%	$2,000	
$2,000	5%	$6,800	
$2,000	10%	$21,700	
$2,000	15%	$65,800	
$10,000			

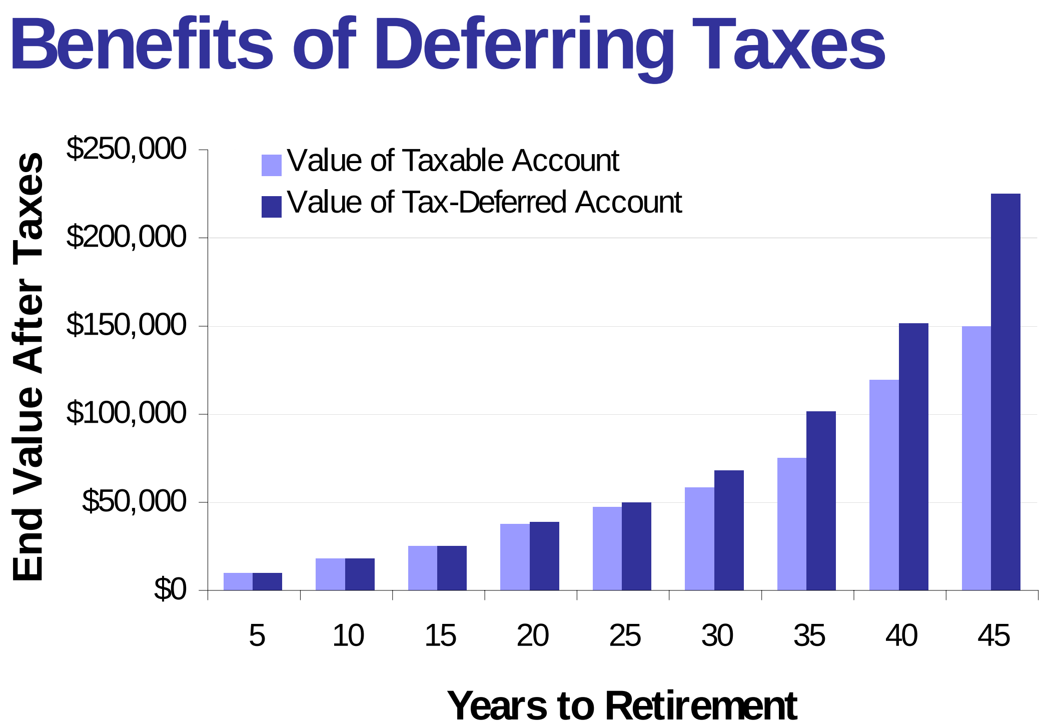
Total Accumulation: $96,300

The Second Investor has $27,800 more than the First Investor in spite of losing 100% of one investment and receiving a 0% return on the second investment.

You Are In Control

Some things are out of *our* control, or just "out of control." When it comes to retirement, you control the three most important factors that determine how much you'll have when you retire.

1. **Start saving. Start saving more.** You control the amount of money you set aside each month. The State or County Plan is a start. But only a start. You'll need more than Social Security and your State or County retirement benefit check. The money has to come out of your pocket. ***Start saving! Start saving more!*** Check out the state's Deferred Compensation Plan or your County's deferred compensation plan. It is a fantastic way to save on a pre-tax basis. Use IRAs, Roths...just get going! As mentioned on page 7 of this report, **www.choosetosave.org** offers comprehensive, easy to understand information about how to save money. And the charts below demonstrate the power of pre-tax savings.



2. **You control when you retire**. The later your retirement is, the easier it will be to reach your goals.

3. **Your asset allocation**. It is the key decision you make.

Whether you select your own asset allocation or take advantage of the selection made for your in a premixed fund, get going!

How Large Should My Nest Egg Be?

Ever wonder how much money you should have in your account to be "reasonably" prepared for retirement? The chart below may give you a general idea. REMEMBER, no two people are alike and no two retirements will be alike! It is a very big guessing game. Will you be married? Will you remarry a younger spouse? Will you be healthy enough to live independently? How about travel? In what state will you retire? Will you still have kids in college? Will you work at another job? Did you save extra dollars in the voluntary Deferred Compensation Plan to provide a financial cushion? These are just a few of the questions that will have a profound impact on your financial life.

What will the economy be like during your retirement? High inflation? Low Inflation? In what tax bracket will you be? There are a tremendous number of assumptions and unanswered questions that go into each retirement needs calculation. Oh, we've left out the two big questions. How fast are you going to spend the money? And when will you die? Because there are so many variables affecting the final outcome, it is completely impossible to calculate a retirement nest egg amount that will be exactly right. The chart below is a "ballpark" attempt to give you an idea of how much money you should have in your account at age 65 to maintain your same standard of living.

Here are the assumptions:

1. You retire at age 65
2. You are single
3. Inflation averages 4% annually
4. Social Security benefits are at current estimates
5. Social Security cost adjustments are 1.6% annually
6. Your retirement plan account balances earn 5% annually

Your Ending	Life Expectancy			
Salary	**Age 85**	**Age 90**	**Age 95**	**Age 100**
$20,000	$234,000	$292,000	$349,000	$406,000
$30,000	$402,000	$496,000	$588,000	$679,000
$40,000	$534,000	$659,000	$782,000	$903,000
$50,000	$673,000	$830,000	$985,000	$1,137,000

How should you read this chart? Assuming you were earning about $40,000 your last years of employment and you expected to live to age 90, you would want at least $659,000 in your retirement accounts when you began retirement. This amount will gradually draw down your balances using both your principal and interest. If you were to die before your assumed life expectancy, there would be funds left in your account. If you lived longer, you would have depleted your account and would be dependent on Social Security and other sources of income.

If you'd like to talk to someone about your situation, NPERS has a contract with **Sterling Financial Advisors**, a registered investment advisor, to do just that. Sterling Financial can give you some of the pros and cons of various investment options, market outlooks and some guidelines to consider. While no one can advise you what you should do, it can be very helpful discussing your options with professionals. You can reach Sterling at **877-970-9300** or in Omaha at **402-970-9300**.

Investment Fund Details

for

Defined Contribution

and

Deferred Compensation Plan (DCP)

Defined Contribution – Cash Balance

In December 2002, State and County Plan members were given the option to remain in Defined Contribution or transfer to Cash Balance, which was implemented in 2003. (See page 41 for the Cash Balance annual report.) About two-thirds of State and County Plan members elected to remain in Defined Contribution. New membership is no longer allowed in Defined Contribution and will gradually decline through retirements. As of December 31, 2006, 51% of State Plan members and 46% of County Plan members were in Defined Contribution.

Through December 31, 2006, State Plan members (both Defined Contribution and Cash Balance) contributed 4.33% of compensation each payroll period until reaching $864 in contributions ($19,954 in salary) during the plan year. Contributions on salary in excess of $19,954 during the year were made at the rate of 4.8%. *Effective January 1, 2007,* and as a result of the passage of LB366, the contribution rate is now an even 4.8% for the plan year. The state matches the employee contributions each payroll period at the rate of 156%.

County Plan members still contribute 4.5% of compensation each payroll period during the plan year. The county matches the employee contributions each payroll period at the rate of 150%.

Members of Defined Contribution make their own investment choices for both their employee and employer funds. Members may invest their employer contributions in any of the 13 fund choices also available for their employee contributions. The account balance for State and County Plan members consists of accumulated contributions plus investment gains or losses. The managers for each fund are selected, monitored and terminated, when necessary, by the Nebraska Investment Council.

Deferred Compensation Plan (DCP)

The voluntary Deferred Compensation Plan (DCP) for State of Nebraska employees offers the same 13 investments offered in Defined Contribution. By offering the same investment funds for both Defined Contribution and the voluntary DCP, participants may find it easier to implement an *integrated investment strategy.* Combining the investment options also provides a reduction in costs for DCP participants.

> **Hartford**: Effective January 1, 1997, the investment management of the State DCP assets was changed from Hartford Life Insurance Company to the Nebraska Investment Council, with different investment options. While contributions to Hartford have not been allowed since then, *participants remaining in the Hartford investment options* ***may transfer their balances*** *from Hartford to the current Deferred Compensation Plan (DCP) investment options* ***at any time*** *with* ***no fee***. Members should contact NPERS with questions regarding a transfer.

Investment Fund Details

The following pages in this section provide details of the 13 investment funds offered in Defined Contribution and DCP. A video explaining the funds is on NPERS' web site at **www.npers.ne.gov**.

MONEY MARKET FUND
As of December 31, 2006

Investment Objective: The Money Market Fund seeks to maximize current income while preserving capital and liquidity through investing in a diversified portfolio of short-term securities. The Fund's yield reflects short-term interest rates. Contributions to the Fund are invested in the State Street Short-Term Investment Fund.

Investment Style: Investments are managed conservatively by investing only in high quality short-term instruments such as U.S. government and agency obligations, commercial paper, repurchase agreements, bankers acceptances, certificates of deposit, time deposits and other fixed income investments.

Performance Thru 12/31/06:

	Fund*	3 Month US Treasury Bills
One Year	5.2%	4.9%
Three Years	3.1	3.1
Five Years	2.5	2.4

* Time-weighted rates of return, net of investment fees.

Quality Diversification:

A1+/P1	67.5%
A1/P1	32.5

Sector Weightings:

Bankers Accept., CDs	30.4%
Repurchase Agreements	26.1
Floating Rate Corp. Notes	19.4
Commercial Paper	16.8
Floating Rate ABS	5.9
Other Short-Term Instruments	1.4

Characteristics:

Portfolio Assets	$43.7 B
Average Quality	A1+/P1
Average Maturity	31 Days
Current Yield	5.3%

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.13%

STABLE VALUE FUND
As of December 31, 2006

Investment Objective:	The investment objective of the Stable Value Fund is to preserve principal value and earn a competitive yield. The Fund accommodates participant withdrawals without penalty.		
Investment Style:	The Stable Value Fund invests in Guaranteed Investment Contracts (GICs), Synthetic Investment Contracts (SICs), and other fixed income instruments. GICs are deposits with GIC issuers that feature repayment of deposits plus interest according to a predetermined schedule. SICs are portfolios of high quality fixed income instruments that are "wrapped" by issuers. SIC wraps are designed to accommodate qualified participant withdrawals.		

Performance Thru 12/31/06:

	Fund*	Hueler Index**
One Year	4.5%	4.8%
Three Years	4.4	4.0
Five Years	4.7	3.0

* Time-weighted rates of return, net of investment fees.

** 3 Month U.S. Treasury Bills were used as the benchmark until May 2004. Since June 2004, the benchmark has been the Hueler Index. The benchmark shown is a time-weighted blend of the two benchmarks.

Composition:

SICs	76.7%
GICs	19.9
Cash Equivalents	3.4

Largest Holdings:

GICs and SICs Major Issuers	
Bank of America	19.2%
State Street	19.2
CDC	19.2
UBS	19.2
Monumental Life	4.5
Metropolitan Life	3.7
Protective Life	3.6
Principal Life	2.0
GE Capital Assurance	1.6
GE Life	1.6

Characteristics:

Portfolio Assets	$146.4 M
Number of GIC/SIC Issuers	12
Current Yield	4.7%

Manager: T. Rowe Price Stable Asset Management, Inc. is a subsidiary of T. Rowe Price Associates located in Baltimore, Maryland.

Annual Investment Fee: Approximately 0.14%

BOND MARKET INDEX FUND
As of December 31, 2006

Investment Objective: The Bond Market Index Fund seeks to replicate the returns and characteristics of the Lehman Brothers U.S. Aggregate Index. Contributions to the Fund are invested in the Barclays Global Investors Bond Index Fund.

Investment Style: The Fund employs a passive bond index strategy that is invested in a diversified portfolio and is representative of the broad U.S. bond market. Since complete replication of the Index is not economically practical, a stratified sampling approach is employed to build the Fund portfolio. The portfolio's characteristics closely resemble those of the Index.

		Fund*	Lehman Aggregate Index
Performance Thru 12/31/06:	One Year	4.4%	4.3%
	Three Years	3.7	3.7
	Five Years	5.1	5.1

*Time-weighted rates of return, net of investment fees.

Quality Diversification:	AAA	79.0%	BBB	7.5%
	AA	4.9		
	A	8.6		

Sector Weightings:	Government	36.0%
	Mortgage-Backed	34.9
	Corporate Bonds	19.4
	Commercial MBS	4.9
	Non-US Credit	3.5
	Asset Backed	1.1
	Taxable Municipals	0.2

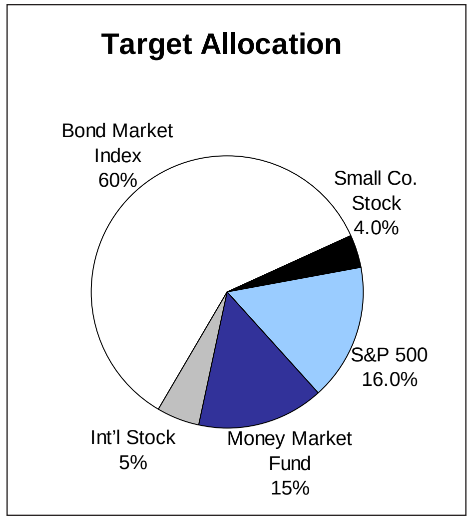
Characteristics:	Portfolio Assets	$1.4 B
	Average Quality	AAA
	Current Yield	5.3%
	Mod. Adj. Duration	4.6

Manager: Barclays Global Investors is located in San Francisco, California.

Annual Investment Fee: Approximately 0.06%

CONSERVATIVE PREMIXED FUND
As of December 31, 2006

Investment Objective: Through a combination of 75% fixed income investments and 25% stocks, this Fund is designed to provide a diversified conservative strategy with emphasis placed on fixed income to obtain lower volatility and market risk.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/06:

	Fund*	Lehman Aggregate	S&P 500 Index	SSgA Money Market	Russell 2000 Stock Index	MSCI ACWI Ex-US
One Year	8.5%	4.3%	15.8%	5.2%	18.4%	26.7%
Three Years	5.9	3.7	10.4	3.1	13.6	21.3
Five Years	5.2	5.1	6.2	2.5	11.4	16.4

*Time-weighted rates of return, net of investment fees.

Target Allocation:

	Targets	Holdings
S&P 500 Stock Index Fund	16.0%	16.9%
Small Company Stock Fund	4.0	4.0
International Stock Index Fund	5.0	5.3
Bond Market Index Fund	60.0	59.2
Money Market Fund	15.0	14.6

Portfolio Analysis: Portfolio Assets $21.2 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund, Bond Market Index Fund, and Money Market Fund.

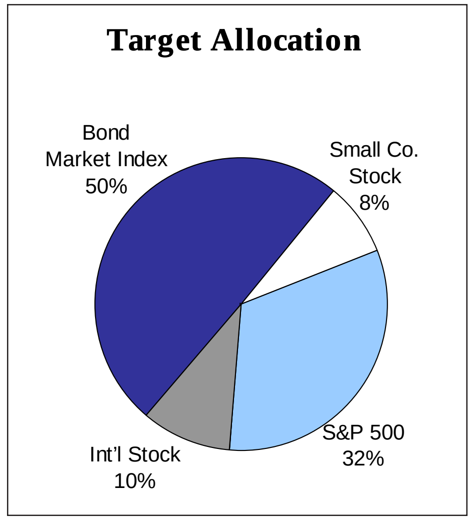
Manager: S&P 500 Stock Index Fund, Bond Market Index Fund, and International Stock Index Fund are managed by Barclays Global Advisors, Small Company Stock Fund by Dimensional Fund Advisors, and Money Market Fund by State Street Global Advisors.

Annual Investment Fee: Approximately 0.08%

MODERATE PREMIXED FUND

As of December 31, 2006

Investment Objective: Through a combination of 50% fixed income investments and 50% stocks, this Fund is designed to provide a diversified balanced strategy with investments split evenly between equities with their higher expected rates of return and volatility and fixed income investments with their lower expected rates of return and volatility.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/06:

	Fund*	Lehman Aggregate	S&P 500 Index	SSgA Money Market	Russell 2000 Stock Index	MSCI ACWI Ex-US
One Year	11.5%	4.3%	15.8%	5.2%	18.4%	26.7%
Three Years	8.2	3.7	10.4	3.1	13.6	21.3
Five Years	6.8	5.1	6.2	2.5	11.4	16.4

*Time-weighted rates of return, net of investment fees.

Target Allocation:

	Targets	Holdings
S&P 500 Stock Index Fund	32.0%	33.7%
Small Company Stock Fund	8.0	7.7
International Stock Index Fund	10.0	10.2
Bond Market Index Fund	50.0	48.4

Portfolio Analysis: Portfolio Assets $499.2 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund, Bond Market Index Fund and Money Market Fund,

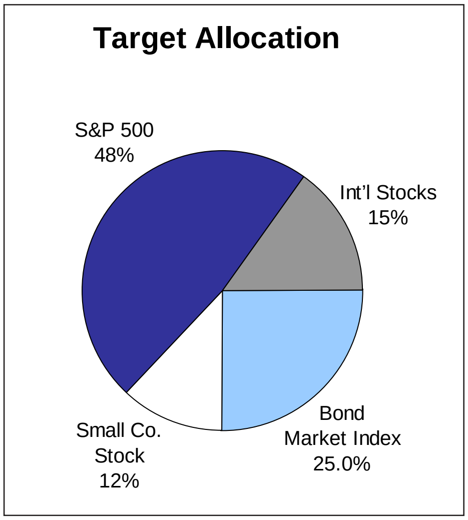
Manager: S&P 500 Stock Index Fund, Bond Market Index Fund, and International Stock Index Fund managed by Barclays Global Investors, Small Company Stock Fund by Dimenional Fund Advisors, and Money Market Fund by State Street Global Advisors.

Annual Investment Fee: Approximately 0.09%

AGGRESSIVE PREMIXED FUND
As of December 31, 2006

Investment Objective: Through a combination of 25% fixed income investments and 75% stocks, this Fund is designed to provide a diversified aggressive strategy with the emphasis placed on equities with their higher expected returns for participants assuming greater market volatility.

Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart located at the right.



		Fund*	Lehman Aggregate	S&P 500 Index	Russell 2000 Stock Index	MSCI ACWI Ex-US
Performance Thru 12/31/06:	One Year	15.2%	4.3%	15.8%	18.4%	26.7%
	Three Years	10.5	3.7	10.4	13.6	21.3
	Five Years	7.9	5.1	6.2	11.4	16.4

*Time-weighted rates of return, net of investment fees.

		Targets	Holdings
Target Allocation:	S&P 500 Stock Index Fund	48.0%	48.8%
	Small Company Stock Fund	12.0	11.6
	International Stock Index Fund	15.0	15.4
	Bond Market Index Fund	25.0	24.2

Portfolio Analysis: Portfolio Assets $75.3 M

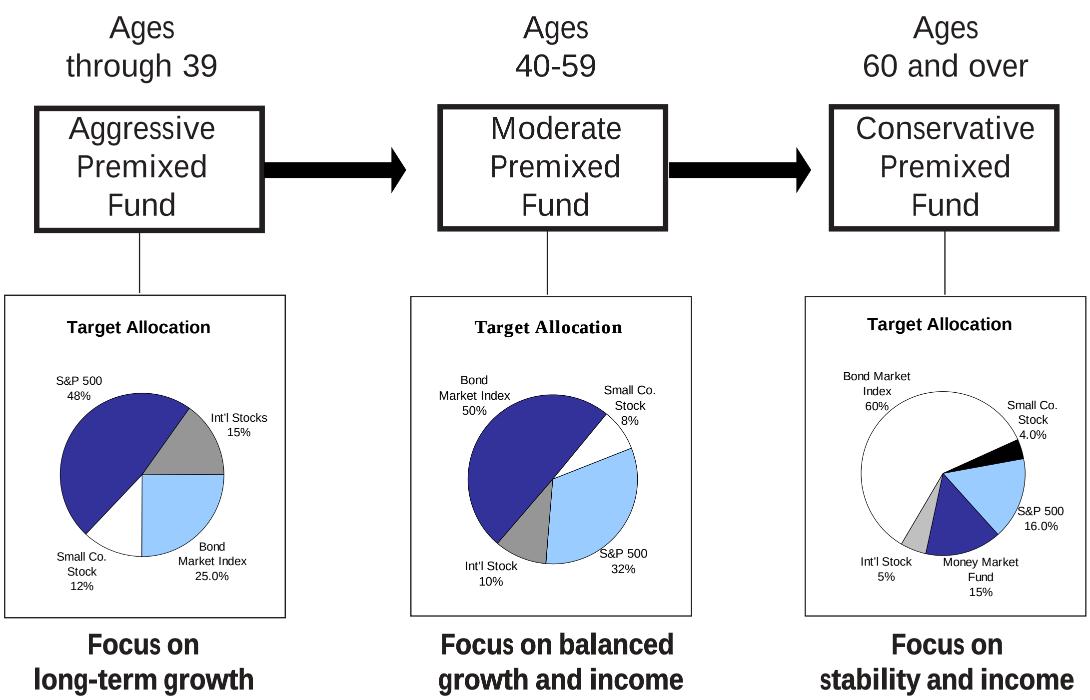
For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund and Bond Market Index Fund.

Manager: S&P 500 Stock Index Fund, Bond Market Index Fund and International Stock Index Fund are managed by Barclays Global Investors and Small Company Stock Fund by Dimenional Fund Advisors.

Annual Investment Fee: Approximately 0.10%

AGE-BASED FUND
As of December 31, 2006

The Age-Based Fund utilizes the existing Premixed Funds for your investment allocation between stocks, bonds and cash. The premixed funds function together as a "life cycle" fund, which means asset allocations automatically become more conservative as a member gets closer to retirement age.



Members through age 39 who select this option will first have their assets invested in the **Aggressive Premixed Fund** (see the Aggressive Premixed Fund fact sheet for fund details). The use of the Aggressive Premixed Fund is for members with the longest time before retirement. As members reach age 40 their investment will automatically be changed to the Moderate Premixed Fund.

Members at age 40 through 59 who select this option will have their assets invested in the **Moderate Premixed Fund** (see the Moderate Premixed Fund fact sheet for fund details). The use of the Moderate Premixed Fund is for members at a mid-point in their lives and investment horizon. When members become age 60 their investment will be changed to the Conservative Premixed Fund.

Members at age 60 and over who select this option will have their assets invested in the **Conservative Premixed Fund** (see the Conservative Premixed Fund fact sheet for fund details). The use of the Conservative Premixed Fund is for members as they draw closer to the end of their careers and have a shorter investment horizon.

By selecting the Age Based Fund, members have the ease of an automatic shift to more conservative investments and an automatic re-balance of their asset allocation with changes in the markets. Members always retain the option to transfer their account and future contributions into any of the 13 other funds.

S&P 500 STOCK INDEX FUND
As of December 31, 2006

Investment Objective:	The S&P 500 Stock Index Fund seeks to replicate the returns and characteristics of the S&P 500 Index. Contributions to the Fund are invested in the Barclays Global Investors Equity Index Fund.				
Investment Style:	The S&P 500 Index is a broad index comprised of 500 common stocks representing over 75% of the capitalization of the U.S. equity market. Common stocks are purchased in the same weighting as they appear in the S&P 500 Index.				
Performance Thru 12/31/06:		Fund*	S&P 500 Index		
	One Year	15.9%	15.8%		
	Three Years	10.5	10.4		
	Five Years	6.2	6.2		
	*Time-weighted rates of return, net of investment fees.				
Composition:	Common Stocks		100.0%		
Major Sectors:	Financials	22.2%			
	Consumer Discretionary	20.0			
	Communications	11.6			
	Industrials	11.1			
	Information Technology	10.6			
Largest Holdings:	Exxon Mobil	3.5%	Proctor & Gamble	1.6	
	General Electric	3.0	Johnson & Johnson	1.5	
	Citigroup	2.2	Pfizer	1.5	
	Microsoft	2.0	AIG	1.5	
	BankAmerica	1.9	Altria	1.4	
Portfolio Analysis:	Portfolio Assets	$20.0 B	Price-to-Earnings	16.7x	
	Number of Holdings	500	Price-to-Book	2.89	
	Avg. Capitalization	$100.4 B	Yield	1.8%	
Manager:	Barclays Global Investors is located in San Francisco, California.				
Annual Investment Fee:	Approximately 0.03%				

LARGE COMPANY GROWTH STOCK INDEX FUND
As of December 31, 2006

Investment Objective: The Large Company Growth Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Growth Index. Contributions to the Fund are invested in the Barclays Global Investors Russell 1000 Growth Fund.

Investment Style: The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Growth Index is a sub-category of the Russell 1000 Index with growth characteristics. Growth characteristics consist of higher expected earnings and revenue increases as well as higher price-to-earnings ratios and price-to-book values.

Performance Thru 12/31/06:

	Fund*	Russell 1000 Growth Index
One Year	9.1%	9.1%
Three Years	6.9	6.9
Five Years	2.7	2.7

*Time-weighted rates of return, net of investment fees.

Composition: Common Stocks 100.0%

Major Sectors:

Consumer Staples	25.6%
Information Technology	18.6
Industrials	14.4
Consumer Discretionary	13.3
Communications	12.1

Largest Holdings:

Microsoft	3.7%	Intel	1.7%
General Electric	2.6	Wal Mart	1.6
Johnson & Johnson	2.4	Pepsico	1.5
Cisco Systems	2.3	Google	1.4
IBM	1.9	Altria	1.1

Portfolio Analysis:

Portfolio Assets	$1.1B	Price-to-Earnings	20.7x
Number of Holdings	684	Price-to-Book	4.0x
Avg. Capitalization	$71.8B	Yield	1.1%

Manager: Barclays Global Investors is located in San Francisco, California.

Annual Investment Fee: Approximately 0.04%

LARGE COMPANY VALUE STOCK INDEX FUND
As of December 31, 2006

Investment Objective: The Large Company Value Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Value Index. Contributions to the Fund are invested in the Barclays Global Investors Russell 1000 Value Fund.

Investment Style: The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Value Index is a sub-category of the Russell 1000 Index with value characteristics. Value characteristics generally consist of lower price-to-earnings ratios and lower price-to-book values for stocks currently out of favor and/or stocks with lower forecasted growth rates.

Performance: Thru 12/31/06:

	Fund*	Russell 1000 Value Index
One Year	22.2%	22.3%
Three Years	15.1	15.1
Five Years	10.9	10.9

*Time-weighted rates of return, net of investment fees.

Composition: Common Stocks 100.0%

Major Sectors:

Financials	36.4%
Consumer Discretionary	14.4
Energy	14.1
Communication	11.1
Industrials	7.1

Largest Holdings:

Exxon Mobil	6.2%	JP Morgan	2.4%
Citigroup	3.9	Proctor & Gamble	2.4
BankAmerica	3.4	Chevron	2.3
General Electric	2.8	AT&T	2.0
Pfizer	2.7	AIG1	.9

Portfolio Analysis:

Portfolio Assets	$1.9B	Price-to-Earnings	14.1x
Number of Holdings	612	Price-to-Book	2.2x
Avg. Capitalization	$109.7B	Yield	2.4%

Manager: Barclays Global Investors is located in San Francisco, California.

Annual Investment Fee: Approximately 0.04%

SMALL COMPANY STOCK FUND
As of December 31, 2006

Investment Objective: The Small Company Stock Fund's primary objective is capital appreciation through investment in U.S. common stocks with small capitalization. Contributions to the Fund are invested in the DFA Small Company Portfolio.

Investment Style: This Fund is focused on capturing the returns and possible diversification benefits of a broad cross-section of small U.S. companies. Equities purchased approximately represent the smallest 8% of companies listed on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange.

Performance: Thru 12/31/06:

	Fund*	Russell 2000 Stock Index
One Year	16.6%	18.4%
Three Years	13.4	13.6
Five Years	12.3	11.4

*Time-weighted rates of return, net of investment fees.

Composition:

Common Stocks	99.1%
Cash Equivalents	0.9

Major Sectors:

Information Technology	19.8%
Consumer Discretionary	17.6
Industrials	15.1
Financials	15.0

Largest Holdings:

Oregon Steel Mills	0.17%	Devry	0.16%
Immucor	0.17	RPC	0.16
Big Lots	0.17	New River Pharm.	0.16
Micros Systems	0.16	Chaparral Steel	0.16
Psychiatric Solutions	0.16	Ikon Office Solutions	0.16

Portfolio Analysis:

Portfolio Assets	$3,659 M	Price-to-Earnings	19.0x
Number of Holdings	2,957	Price-to-Book	3.0x
Avg.Capitalization	$998 M	Yield	0.8%

Manager: Dimensional Fund Advisors is located in Santa Monica, California.

Annual Investment Fee: Approximately 0.41%

INTERNATIONAL STOCK INDEX FUND
As of December 31, 2006

Investment Objective:	The International Stock Index Fund seeks to replicate the returns and characteristics of the Morgan Stanley Capital International (MSCI) All Country World ex-US Index (ACWI ex-US). Contributions to the Fund are invested in the Barclays Global Investors MSCI ACWI ex-US Index Fund.			
Investment	The MSCI ACWI ex-US represents approximately 60% of the total stock market capitalization outside of the United States. In addition to long-term capital appreciation, investing in foreign markets offers the opportunity of diversification benefits.			

		Fund*	MSCI ACWI ex-US Index
Performance Thru 12/31/06:	One Year	26.8%	26.7%
	Three Years	N/A	21.3
	Five Years	N/A	16.4

*Time-weighted rates of return, net of investment fees.

Country Diversification:	UK	22.1%	Switzerland	6.4
	Japan	21.0	Australia	5.2
	France	9.4	Spain	3.8
	Germany	6.9	Italy	3.6
	Canada‘	6.8	Netherlands	3.2
Largest Holdings:	British Petroleum	1.6%	Vodaphone	1.1
	HSBC Holdings	1.5	Nestle	1.0
	Toyota Motor Corporation	1.4	Novartis	1.0
	Total SA	1.1	Royal Dutch Petroleum	1.0
	GlaxoSmith Kline	1.1	Roche Holding	0.9
Portfolio Analysis:	Fund Assets	$491M	Price-to-Earnings	16.0x
	Number of Holdings	2,125	Number of Countries	41
	Avg. Capitalization	$52.7B	Emerging Markets	14.4%

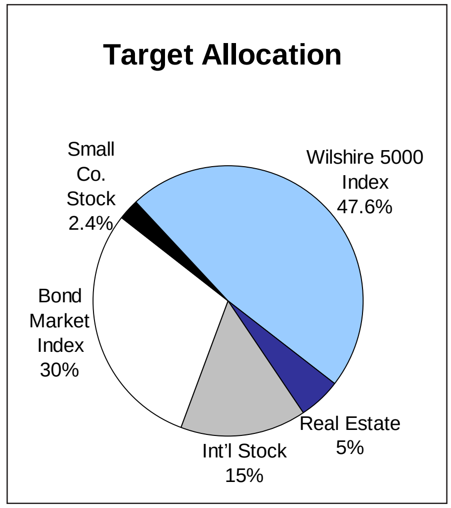
Manager: Barclays Global Investors is located in San Francisco, California.

Annual Investment Fee: Approximately 0.15%

INVESTOR SELECT FUND

As of December 31, 2006

Investment Objective: The Fund is invested with an asset allocation and investment strategy substantially similar to the investment allocations made for the Defined Benefit Plans. Currently, the asset allocation for the Fund is 65% stocks, 30% fixed income and 5% real estate.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans as well as some additional investments. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/06:

	Fund*	Lehman Aggregate	Wilshire 5000 Index	Russell 2000 Index	MSCI ACWI Ex-US	DJ Wilshire Real Estate Securities Index
One Year	14.9%	4.3%	15.8%	18.4%	26.7%	35.9%
Three Years	N/A	3.7	11.5	13.6	21.3	27.8
Five Years	N/A	5.1	7.6	11.4	16.4	24.0

*Time-weighted rates of return, net of investment fees. Fund opened for investment in September 2005.

Target Allocation:

	Targets	Holdings
Wilshire 5000 Index Fund	32.775%	33.5%
Russell 2000 Value Index Fund	2.375	2.4
Russell 1000 Growth Index Fund	4.75	4.6
Blended Large Cap Core Equity Fund	5.225	5.1
Small Company Value Stock Fund	2.375	2.4
International Stock Index Fund	12.5	13.3
Real Estate Fund	5.0	5.6
Global Equity Fund	5.0	5.3
Bond Market Fund	9.9	9.3
Active Fixed Income Funds	20.1	18.5

Portfolio Analysis: Portfolio Assets $6.8 M

Manager: Wilshire 5000 Stock Index Fund, Russell 2000 Value Index Fund, Russell 1000 Growth Index Fund, International Stock Index Fund, and Bond Market Index Fund are managed by Barclays Global Investors, Blended Large Cap Core Equity Fund by Alliance Bernstein, Small Company Value Stock Fund by Dimensional Fund Advisors, Real Estate Fund by Goldman Sachs, Global Equity Fund by MFS and Active Fixed Income Funds by BlackRock Financial Management and PIMCO.

Annual Investment Fee: Approximately 0.31%

Historical Investment Returns

NEBRASKA STATE AND COUNTY EMPLOYEES RETIREMENT SYSTEMS

December 31, 2006

TIME-WEIGHTED RATES OF RETURN

	MONEY MARKET FUND	STABLE VALUE FUND	BOND MARKET INDEX FUND	S & P 500 STOCK INDEX FUND	LARGE COMPANY GROWTH STOCK INDEX FUND	LARGE COMPANY VALUE STOCK INDEX FUND
Quarter	1.40%	1.16%	1.26%	6.76%	6.00%	8.03%
YTD	5.18	4.52	4.36	15.90	9.14	22.22
2006	5.18	4.52	4.36	15.90	9.14	22.22
2005	2.99	4.25	2.44	4.96	5.15	7.16
2004	1.18	4.40	4.34	10.90	6.35	16.50
2003	1.06	4.92	4.10	28.66	29.40	29.94
2002	1.86	5.62	10.33	-22.15	-27.84	-15.57
1 Year	5.18%	4.52%	4.36%	15.90%	9.14%	22.22%
3 Year	3.10	4.39	3.71	10.49	6.87	15.12
5 Year	2.45	4.74	5.11	6.23	2.69	10.87
10 Year	N/A	6.10	N/A	8.46	N/A	N/A

	SMALL COMPANY STOCK FUND	INTERNATIONAL STOCK INDEX FUND	CONSERVATIVE PREMIXED FUND	MODERATE PREMIXED FUND	AGGRESSIVE PREMIXED FUND	INVESTOR SELECT FUND
Quarter	9.06%	11.39%	2.93%	4.59%	6.30%	6.15%
YTD	16.60	26.79	8.52	11.46	15.18	14.97
2006	16.60	26.79	8.52	11.46	15.18	14.97
2005	6.07	16.46	4.05	4.97	6.04	N/A
2004	17.86	20.83	5.17	8.25	10.54	N/A
2003	51.44	N/A	9.63	17.26	24.83	N/A
2002	-19.41	N/A	-0.88	-6.46	-13.39	N/A
1 Year	16.60%	26.79%	8.52%	11.46%	15.18%	14.97%
3 Year	13.38	N/A	5.90	8.19	10.52	N/A
5 Year	12.30	N/A	5.23	6.80	7.86	N/A
10 Year	11.74	N/A	N/A	N/A	N/A	N/A

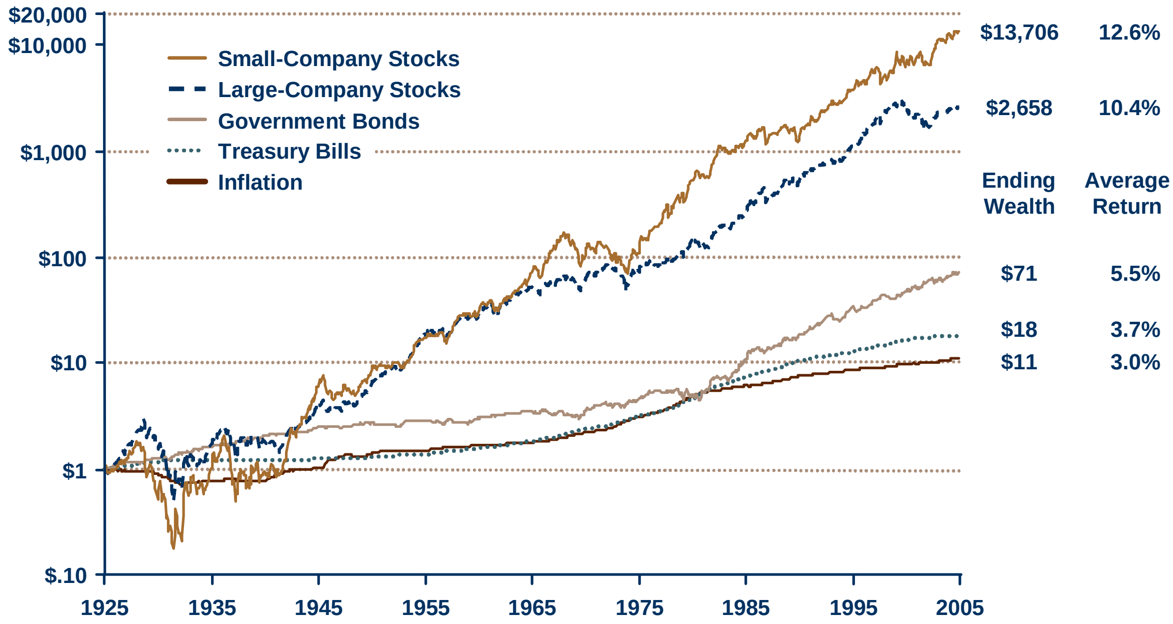
MAJOR INDICES:	S & P 500 (Large Company Stock)	Russell 2000 (Small Company Stock)	MSCI ACWI-EX US (International Stock)	Lehman Aggregate (Bonds)	90-Day Treasury Bill	CPI (Inflation)
Quarter	6.70%	8.90%	11.16%	1.24%	1.26%	-0.54
YTD	15.80	18.35	26.65	4.33%	4.86	2.54
1 Year	15.80%	18.35%	26.65	4.33%	4.86%	2.54
3 Year	10.44	13.55	21.32	3.70	3.07	3.07
5 Year	6.19	11.38	16.42	5.06	2.42	2.69
10 Year	8.42	9.44	8.23	6.24	3.84	2.44

1. Returns are net of investment management fees.
2. The 1, 3, 5, and 10 - year rates of return are annualized rates of return of the funds through December 31, 2006.
3. Past performance is not indicative of future performance.

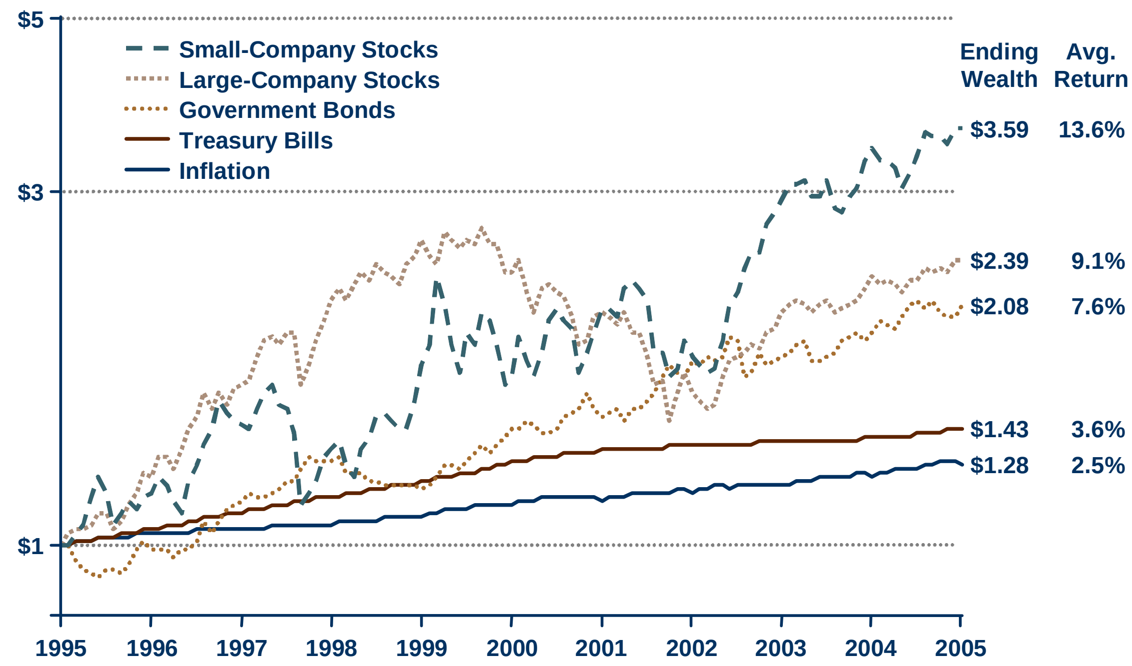
Rates of return are for the investment vehicle currently used. Following are the dates of NE fund participation: Stable Value Fund - 1996; Bond Market Index Fund, S & P 500 Stock Index Fund, Money Market Fund - 1997; Large Company Growth Stock Index Fund,

Stocks, Bonds, Bills and Inflation

Year-End 1925-2005



The Last 10 Years



Hypothetical value of $1 invested at year-end 1995. Assumes reinvestment of income and no transaction costs or taxes. Investing in small-cap stocks generally involves great risks and, therefore, may not be appropriate for every investor. U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificate reflecting short-term (less than one year) obligations of the U.S. government. Diversification does not ensure a profit or guarantee against a loss.

Cash Balance Annual Report

Cash Balance

All new State and County Plan participants are automatically invested in Cash Balance upon hire. Prior to the Cash Balance implementation in January 2003, about one-third of State and County Plan members elected to transfer their account balances in from Defined Contribution (see page 21 for the Defined Contribution annual report.) At 2006 year end, 49% of State Plan members and 54% of County Plan members were in Cash Balance. Membership will continue to increase over time.

Through December 31, 2006, State Plan members (both Defined Contribution and Cash Balance) contributed 4.33% of compensation each payroll period until reaching $864 in contributions ($19,954 in salary) during the plan year. Contributions on salary in excess of $19,954 during the year were made at the rate of 4.8%. *Effective January 1,* 2007, the contribution rate has increased to an even 4.8% for the plan year. The state matches the employee contributions each payroll period at the rate of 156%.

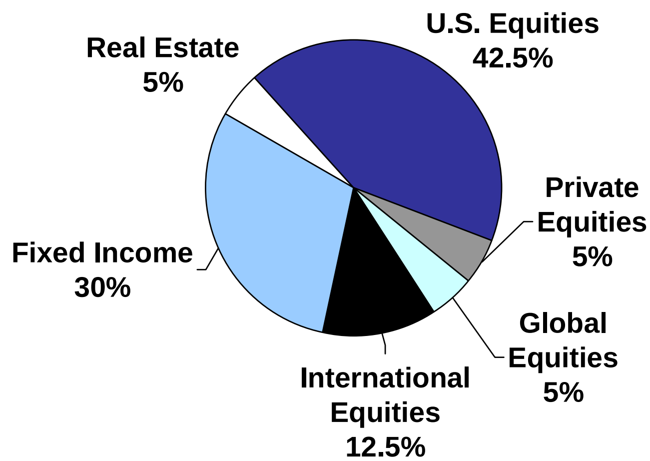
County Plan members still contribute 4.5% of compensation each payroll period during the plan year. The county matches the employee contributions each payroll period at the rate of 150%.

Also effective January 1, 2007, State and County employees are enrolled in Cash Balance in their respective plans immediately upon hire and will vest after three years of plan participation. There is no longer a waiting period to join.

Cash Balance members do not make their own investment choices. The assets are held in a trust fund which is managed by the Nebraska Investment Council. Cash Balance participants are guaranteed an annual *interest credit rate* which is defined in statute as the greater of 5% (the "floor" rate) or the federal mid-term rate plus 1.5%. The interest credit rate is determined each calendar quarter. The account balance for State and County Plan members consists of accumulated contributions plus the interest credit rate earned each quarter.

Asset Allocation

The Nebraska Investment Council has chosen the following investment strategy for the Cash Balance Benefit. This strategy is designed to mirror the investment strategy of the defined benefit plans administered by NPERS for the School Employees, Judges and State Patrol.



Portfolio Managers

In 2005 the Nebraska Investment Council added three new asset classes and hired several new managers. Therefore, the performance of many of the managers is less than one year. The performance of all managers is monitored quarterly and they are subject to thorough reviews at least annually.

The investments for the Cash Balance Benefit option are managed by the following managers. A small portion of the assets are managed internally by the Nebraska Investment Council.

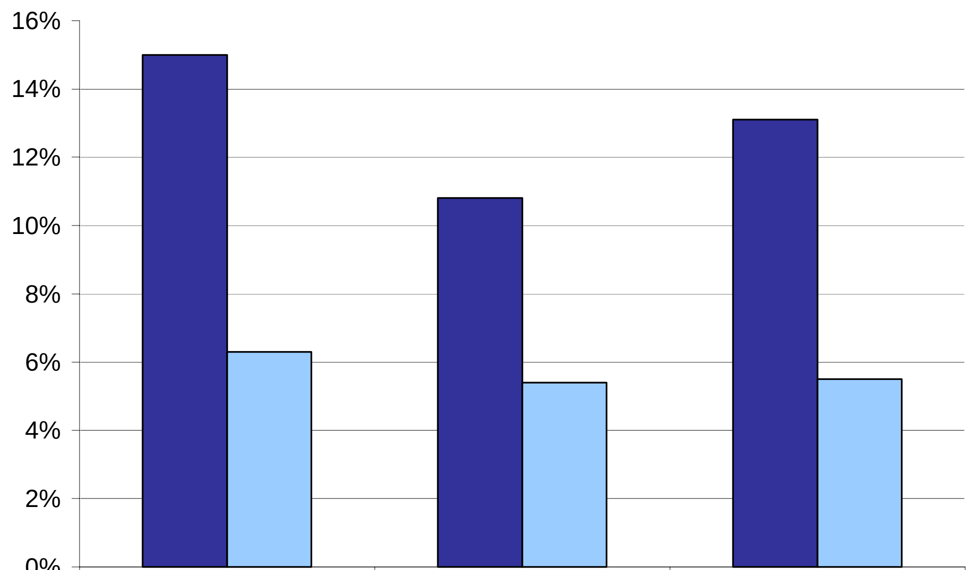
	Allocation %
U.S. Equities -- 46.0%	
Alliance Bernstein L.P	4.7%
Ariel Capital Management, LLC	2.5%
Barclays Global Investors (Wilshire 5000)	30.7%
Dimensional Fund Advisors, Inc.	3.3%
Barclays Global Investors (Large Growth)	4.8%
Private Equities – .01%	
Abbott Capital Management, LLC	0.01%
Global Equities – 5.6%	
Acadian Asset Management, Inc.	2.9%
MFS Institutional Advisors, Inc.	2.8%
International Equities – 16.8%	
Barclays Global Investors (World ex-US)	8.8%
Baillie Gifford Overseas Ltd.	2.0%
Grantham, Mayo, Van Otterloo & Co., LLC	5.9%
Fixed Income – 27.3%	
BlackRock Financial Management	8.5%
PIMCO	8.5%
Barclays Global Investors (Lehman Agg.)	8.1%
Loomis Sayles	1.3%
Nebraska Investment Council	1.0%
Real Estate – 4.2%	
Heitman Real Estate Securities LLC	0.3%
Goldman Sachs Asset Management	0.5%
Prudential	1.7%
UBS	1.6%

Performance Summary

The investments in the Cash Balance benefit returned 15% in calendar year 2006. This return is above the crediting rate earned by participants during the year. In 2006, participants in Cash Balance earned an average of 6.3% as the federal mid-term rate plus 1.5% was above the 5% guaranteed minimum (floor) crediting rate.

Cash Balance Benefit

Actual Returns vs. Interest Credit Rate



	1 Year	3 Year	Since 12/31/02
Cash Balance Benefit	15.0%	10.8%	13.1%
Interest Credit Rate	6.3%	5.4%	5.5%

When investment performance results are above the interest credit rate plus the required reserve, the Public Employees Retirement Board (PERB) has the option to issue a dividend to plan members, or the Nebraska State Legislature may pass legislation to improve plan benefits. The PERB has issued a dividend each year to participants since 2003. (Past dividend payments are not a guarantee of future dividend payments.)

2006 Dividend

In 2006 the PERB voted to issue a dividend to participants who had an account balance on December 31, 2005. The dividend was calculated by multiplying a member's December 31, 2005, account balance by an earnings factor of 13.5% for State members and 16.4% for County members. For example, an account balance of $25,000 as of December 31, 2005, resulted in a one-time dividend of $3,375 for a State member and a $4,100 dividend for a County member.

Summary of Plan Assets

NEBRASKA STATE EMPLOYEES

Defined Contribution Summary of Assets

Fund Name	Balance 1/1/2006	Deposits	Withdrawals
Stable Fund	$100,913,010.97	$3,806,124.40	($7,725,895.69)
Money Market Fund	$2,138,125.25	$909,522.53	($460,888.22)
S & P 500 Stock Index	$91,573,575.30	$5,082,594.97	($3,028,175.28)
Small Co. Stock Fund	$24,261,377.49	$1,582,730.06	($548,530.21)
International Stock Fund	$13,179,433.68	$1,081,593.50	($348,082.81)
Bond Market Index	$4,889,787.42	$376,135.21	($294,332.08)
Lg. Co. Growth Stock Index	$11,774,825.36	$927,594.23	($400,824.79)
Lg. Co. Value Stock Index	$17,003,832.29	$1,112,236.36	($665,135.94)
Conservative Premixed Fund	$14,317,054.61	$1,047,407.78	($758,849.39)
Aggressive Premixed Fund	$52,327,498.27	$4,110,486.89	($1,602,900.73)
Moderate Premixed Fund	$364,679,876.47	$17,256,003.05	($15,336,695.33)
Investor Select Fund	$678,494.15	$167,673.32	($8,257.52)
Total Fund	**$697,736,891.26**	**$37,460,102.30**	**($31,178,567.99)**

RETIREMENT PLAN

for 01/01/06 to 12/31/06

Net Transfers	Expenses	Net Earnings	Balance 12/31/2006
$4,907,080.62	($34,309.53)	$4,434,021.87	$106,300,032.64
$2,280,360.41	($1,498.85)	$194,574.76	$5,060,195.88
($3,961,172.36)	($28,314.72)	$14,218,930.96	$103,857,438.87
$1,239,345.73	($8,738.66)	$4,136,701.96	$30,662,886.37
$6,763,000.19	($5,296.20)	$4,244,658.78	$24,915,307.14
$157,001.61	($1,864.34)	$203,948.84	$5,330,676.66
($49,160.33)	($4,046.00)	$1,058,890.71	$13,307,279.18
$3,025,464.72	($5,090.34)	$4,069,079.98	$24,540,387.07
($138,066.04)	($422,624.67)	$1,185,374.56	$15,230,296.85
($3,482,338.17)	($22,106.02)	$7,592,263.78	$58,922,904.02
($17,470,759.48)	($116,094.67)	$40,430,644.38	$389,442,974.42
$3,418,694.48	($528.58)	$433,362.28	$4,689,438.13
($3,310,548.62)	**($650,512.58)**	**$82,202,452.86**	**$782,259,817.23**

Defined Contribution Summary of Assets

Fund Name	Balance 1/1/2006	Deposits	Withdrawals
Stable Fund	$23,044,052.12	$1,195,992.11	($1,608,255.24)
Money Market Fund	$543,733.96	$78,408.12	($37,700.86)
S & P 500 Stock Index	$21,808,488.82	$1,452,389.50	($866,733.86)
Small Co. Stock Fund	$3,878,773.61	$328,926.36	($183,312.19)
International Stock Fund	$2,068,093.27	$198,907.16	($128,595.92)
Bond Market Index	$909,462.55	$90,437.60	($30,119.81)
Lg. Co. Growth Stock Index	$2,092,977.33	$220,996.64	($109,908.57)
Lg. Co. Value Stock Index	$2,256,635.54	$209,386.29	($117,920.93)
Conservative Premixed Fund	$4,133,517.87	$444,709.67	($425,538.40)
Aggressive Premixed Fund	$10,662,048.52	$1,152,583.97	($357,185.84)
Moderate Premixed Fund	$92,918,173.72	$5,392,612.30	($4,864,684.77)
Investor Select Fund	$129,277.70	$24,891.30	($55,891.91)
Total Fund	**$164,445,235.01**	**$10,790,241.02**	**($8,785,848.30)**

RETIREMENT PLAN

for 01/01/06 to 12/31/06

Net Transfers	Expenses	Net Earnings	Balance 12/31/2006
$22,086.40	($44,502.78)	$981,592.33	$23,590,964.94
($30,204.58)	($1,656.43)	$30,877.04	$583,457.25
($459,355.98)	($43,011.76)	$3,460,835.65	$25,352,612.37
$89,267.82	($8,853.30)	$653,920.84	$4,758,723.14
$735,848.73	($5,241.34)	$629,542.57	$3,498,554.47
($158,649.29)	($1,821.52)	$33,709.11	$843,018.64
($157,271.55)	($4,190.32)	$188,777.04	$2,231,380.57
$297,916.55	($4,844.19)	$518,479.80	$3,159,653.06
($90,794.36)	($27,997.50)	$339,099.46	$4,372,996.74
($1,583.83)	($24,024.28)	$1,643,549.88	$13,075,388.42
($1,582,406.76)	($180,345.84)	$10,491,971.14	$102,175,319.79
$245,918.27	($530.29)	$40,922.65	$384,587.72
($1,089,228.58)	**($347,019.55)**	**$19,013,277.51**	**$184,026,657.11**

STATE OF NEBRASKA EMPLOYEES

Cash Balance Summary of Assets for

Fund Name	Balance 1/1/2006	Deposits	Withdrawals
Cash Balance Fund	$292,477,315.97	$27,332,635.75	($22,130,598.79)
Total Fund	**$292,477,315.97**	**$27,332,635.75**	**($22,130,598.79)**

NEBRASKA COUNTY EMPLOYEES

Cash Balance Summary of Assets for

Fund Name	Balance 1/1/2006	Deposits	Withdrawals
Cash Balance Fund	$85,862,881.37	$10,360,704.20	($5,996,401.20)
Total Fund	**$85,862,881.37**	**$10,360,704.20**	**($5,996,401.20)**

RETIREMENT PLAN

01/01/06 to 12/31/06

Net Transfers	Expenses	Net Earnings	Balance 12/31/2006
$3,310,548.62	($799,332.12)	$62,005,605.06	$362,196,174.49
$3,310,548.62	**($799,332.12)**	**$62,005,605.06**	**$362,196,174.49**

RETIREMENT PLAN

01/01/06 to 12/31/06

Net Transfers	Expenses	Net Earnings	Balance 12/31/2006
$1,089,228.58	($272,475.64)	$20,898,523.65	$111,942,460.96
$1,089,228.58	**($272,475.64)**	**$20,898,523.65**	**$111,942,460.96**

Summary of Assets

Fund Name	Balance 1/1/2006	Deposits	Withdrawals
Stable Fund	$16,446,978.80	$1,615,670.23	($1,885,597.70)
Money Market Fund	$1,551,092.07	$166,985.11	($37,743.62)
S & P 500 Stock Index	$26,566,538.34	$2,095,118.26	($1,603,588.52)
Small Co. Stock Fund	$8,846,321.21	$1,190,542.18	($496,776.83)
International Stock Fund	$7,091,367.88	$897,765.77	($403,047.61)
Bond Market Index	$3,102,261.07	$321,508.44	($199,973.31)
Lg. Co. Growth Stock Index	$3,796,855.11	$475,492.18	($212,079.25)
Lg. Co. Value Stock Index	$5,791,986.10	$738,400.54	($358,760.54)
Conservative Premixed Fund	$901,317.91	$208,932.73	($40,070.62)
Aggressive Premixed Fund	$2,841,495.89	$476,672.64	($150,329.12)
Moderate Premixed Fund	$8,124,887.88	$761,283.27	($617,216.99)
Investor Select Fund	$117,254.92	$291,204.14	($7,232.82)
Total Fund	**$85,178,357.18**	**$9,239,575.49**	**($6,012,416.93)**

COMPENSATION PLAN

for 01/01/06 to 12/31/06

Net Transfers	Expenses	Net Earnings	Balance 12/31/2006
($168,457.81)	($24,431.39)	$710,549.63	$16,694,711.76
$1,325,475.33	($3,422.78)	$112,121.48	$3,114,507.59
($2,274,347.00)	($44,297.77)	$4,056,160.48	$28,795,583.79
($224,033.27)	($15,770.34)	$1,476,122.85	$10,776,405.80
$1,203,708.13	($14,128.00)	$2,131,590.09	$10,907,256.26
($517,239.01)	($4,500.71)	$106,363.44	$2,808,419.92
($264,107.93)	($6,254.58)	$304,081.27	$4,093,986.80
$544,109.61	($9,930.27)	$1,362,612.90	$8,068,418.34
$511,832.87	($2,195.63)	$106,338.13	$1,686,155.39
($213,737.63)	($6,419.06)	$452,233.42	$3,399,916.14
($1,117,305.51)	($13,745.15)	$856,551.91	$7,994,455.41
$1,194,102.22	($1,572.87)	$162,262.57	$1,756,018.16
$0.00	**($146,668.55)**	**$11,836,988.17**	**$100,095,835.36**

Glossary

Glossary

Aggressive – An investment strategy characterized by a willingness to accept above-average risk in pursuit of above-average returns. Usually favors stocks over bonds, especially stocks of rapidly growing companies.

Asset – Any item of economic value. Examples are cash, stocks, bonds, U.S. Treasury notes, accounts receivable, inventory, office equipment, a house, a car, and other property.

Asset Allocation – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's specific situation and goals. Often more conservative investments (less volatity - lower returns) to balance more aggressive investments (more volatility - more returns.)

Balanced Fund – A mutual fund that buys a combination of common stocks, preferred stocks, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.

Bankers Acceptances - A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. These may often offer a higher rate of return.

Bear Market – A prolonged period of falling prices, usually by 20% or more, accompanied by widespread pessimism.

Benchmark – A standard, a reference point used for comparison. For example, many stock funds are compared to the performance of the S & P 500. Bond funds are compared to a bond index.

Book Value – A company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill. Also, the value of an asset as it appears on a balance sheet, equal to cost minus accumulated depreciation. Book value often differs substantially from market price, especially in knowledge industries such as high-tech.

Bull Market – A prolonged period of rising prices, usually by 20% or more accompanied by wide spread optimism.

Bonds - A debt security issued for a period of more than one year with the purpose of raising money by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds to raise money. A bond is a promise to repay the principal along with interest on a specified date (maturity).

Capital – Combination of liquid and fixed assets available to operate a business.

Cash Equivalents – Highly liquid, very safe investments which can be easily converted into cash, such as Treasury Bills and money market funds.

Certificates of Deposit (CD) – Short or medium term, interest-bearing, FDIC-insured investments offered by banks, savings and loans, and can be purchased through a brokerage firm. CDs offer higher rates of return than most liquid investments, in exchange for tying up invested money for the duration of the certificate's maturity. Money removed before maturity is subject to a penalty. CDs are low risk, low return investments, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from three months to six years.

Commercial Paper – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 50 days.

Corporate Bonds – A bond issued by a corporation; a corporation borrowing money with the promise to pay back typically at a higher interest rate.

Diversified – An investment is said to be "diversified" if it owns a number of different investments or asset classes, in order to spread risk.

Dollar Cost Averaging – An investment strategy designed to reduce volatility in which securities, typically mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving.

Equities – Same as stock; indicates ownership, i.e. equity in your home – or equity shares (stock) in a company.

Fixed Income – A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock.

Growth Stock – Stock of a company which is growing earnings and/or revenue faster than its industry or the overall market. Such companies usually pay little or no dividends, preferring to use the income instead to finance further expansion.

Guaranteed Investment Contracts (GIC) – Debt instrument issued by an insurance company, usually in a large denomination, and often bought for retirement plans. The interest rate paid is guaranteed, but the principal is not.

IRA – An Individual Retirement Account that permits individuals to set aside up to $3,000 per year, with earnings tax-deferred until withdrawals begin at age 59½ (earlier with a 10% penalty) or later. Individuals who are at age 50 or older can set aside up to $3,500 a year. Only those who do not participate in a pension plan at work or who do participate and meet certain income guidelines can make deductible contributions to an IRA. All others can make contributions to an IRA on a non-deductible basis. Annual distributions must start at age 70½.

Inflation – The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index.

Life Cycle Funds – Funds that change their mix of stocks and bonds over time based on age or years to retirement.

Liquidity – The ability of an investment asset to be converted into cash quickly.

Market Risk – Risk which is common to an entire class of assets. Risk that cannot be eliminated by diversification.

Passive Bond – Bond which is issued at less than full face value, pays no interest until maturity, but at maturity is redeemed at its full face value, such as Series E Bonds or Zero Coupon Bonds.

Performance – The results of activities of an organization or investment over a given period of time.

Portfolio – A collection of investments all owned by the same individual or organization.

Preferred Stock – Capital stock which provides a specific fixed dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of liquidation.

Preservation of Capital – A conservative investment strategy characterized by a desire to avoid risk of loss of municipal. Does not protect against purchasing power loss.

Price to Earnings Ratio – The most common measure of how expensive a stock is. Equivalently, the cost an investor must pay in a given stock per dollar of current annual earnings. For example, a stock selling at $12 a share that has earnings of $1 per share will have a price to earnings ratio (P/E) of 12 times earnings. Another way to look at it is, you are paying $12 to receive $1 of expected earnings.

Purchasing Power – The value of money, as measured by the quantity and quality of products and services it can buy, frequently related as the Consumer Price Index (CPI).

Repurchase Agreements – A contract in which the seller of debt securities, usually Treasury Bills, agrees to buy them back at a specified time and price.

Risk Tolerance – An investor's ability to handle declines in the value of his/her portfolio while waiting for them to increase.

Roth IRA – A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers to save for retirement while allowing the savings to grow tax-free but withdrawals, subject to certain rules, are not taxed at all. Contributions are made after tax. Withdrawals of principal and earnings are tax free. Maximum annual contributions are $3,000 per year and phasing up to $4,000 per year in 2005 and $5,000 in 2008.

Security – An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt (borrowing) or equity (ownership).

Short-term – Usually one year or less.

Stability – Absence of volatility; usually desirable, compared to the market as a whole.

Synthetic Investment Contract – A variety of stable value products which substitute for GICs in defined contribution plans and offer book value participant withdrawals. The contract includes an asset ownership component and some form of book value "wrap," maintaining participant accounts at book value. The assets backing the contract, usually high-grade securities, are owned by the plan and held in a trust account or custody account for the plan. The plan sponsor relies on the credit of the wrap issuer to support the book value guarantee.

Tax Deferred – Income whose taxes and earnings can be postponed until a later date. Examples include IRAs, 401(k)s, Keogh Plans, annuities and Savings Bonds.

Time Deposits – Savings account or CD held in a financial institution, usually a bank, for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

Under Performance – An investment whose return has trailed that of other similar investments as measured by a benchmark.

Value Stock – A stock that may represent an older company, with steadier growth of earning. Often these companies do not need to reinvest all of the earnings back into the company so they pay the shareholders a cash dividend. Value stocks typically sell at lower prices in relation to their earnings than do growth stocks.

Volatility – The relative rate at which the price of a security moves up and down.

Wrap Contract – A contract that guarantees principal and accumulated interest, payment of an interest rate for a specified period of time, and participant-initiated withdrawals and transfers at face value. In synthetic GICs, the selection of the wrap provider is generally made separately from the selection of the investment management services for the underlying assets.

Yield – The annual rate of return on an investment, expressed as a percentage. For bonds and notes, it is the amount paid divided by the market price. For securities, it is the annual dividends divided by the purchase price. Example:

Annual Dividend	\$ 1.00
Price of Stock	÷ \$12.00
Yields	8%

Another example of yield is the interest on a bank certificate of deposit. If you deposit \$1,000 and one year later your C.D. is worth \$1,020, your yield or rate of return was 2%.